

STONESOFT CORPORATION INTERIM REPORT FOR JANUARY-MARCH 2013

NET SALES GREW BY 12 PER CENT

Stonesoft Corporation's product sales grew by 9% and net sales by 12% compared to the corresponding period in the previous year. Operating result was MEUR -2.2.

The comparable figures from the corresponding period in the previous year are in brackets.

January-March 2013

- Net sales MEUR 9.2 (8.3), growth 12%
- Product sales MEUR 5.4 (4.9), growth 9%
- Operating result MEUR -2.2 (-0.6)
- Operating result as percentage of net sales -23 (-7)%
- Earnings per share EUR -0.03 (-0.01)
- Operative cash flow MEUR 1.1 (1.4)
- Liquid cash funds at the end of the fiscal period MEUR 8.3 (9.1). The corporate had no interest-bearing debts.

CEO ILKKA HIIDENHEIMO

The first quarter of the year 2013 was a time of investing in strong growth. As planned and according to our strategy we increased investments in the beginning of the year in sales, marketing and product development. This, together with some postponed deals, resulted in a weaker result.

During the first quarter of the year 2013 Stonesoft's product sales grew by approximately 9% and net sales by approximately 12%.

We expanded our operations to new markets, among others to Sweden, Portugal and Belgium. We will continue to invest in making the growth continue by adding resources in our sales and marketing organization as well as in product development. We will raise the competitiveness of our products in vertical sectors important to us, such as in the public sector, teleoperator, military and defense industries. In addition, Stonesoft is actively seeking distribution and OEM partnerships with internet solution providers. Due to this, we will strengthen the suitability of our products to channel partnership business, managed security service providers (MSSPs) and securing cloud services. Our ability to manage hybrid environments provides significant benefits for the development of cloud services. This way various organizations can flexibly build their solutions in the cloud for example with external partners, but still continue to save their business critical information to their own servers and utilize their own environments securely.

The research company Gartner, Inc. positioned Stonesoft as a visionary in its latest Magic Quadrant Enterprise Network Firewalls reports. In the IPS Magic Quadrant report, Stonesoft was the only company positioned in the Visionaries quadrant. In its comparison report, Gartner has recognized this aim. The only way to stay ahead of continuously evolving security threats is to invest in research and product development- that is, to be visionary. Stonesoft develops solutions which are able to secure lives and businesses in cyber space.

We introduced an updated version of the Evader testing tool at the RSA event in the United States at the end of February. Evader is still able to bypass all next generation firewall, UTM and intrusion prevention solution on the market, except Stonesoft's own security solutions.

The Winning Cyber Strategy 2013 top forum we arranged in January brought together leading cyber security experts from Finland and abroad, such as Toomas Hendrik Ilves, the President of Estonia, and the British journalist Misha Glenny, and provided up-to-date information about cyber risk and threats. We can already refer to arms race in cyber security. Cyber security has still been strongly visible in global media and Stonesoft has obtained the status of an internationally recognized expert.

NET SALES AND RESULT

January-March 2013

The Group's net sales in the fiscal period were MEUR 9.2 (8.3). Increase compared to the corresponding period in the previous year was MEUR 1.0, or 12%. The operating result (EBIT) was MEUR -2.2 (-0.6) and the result after taxes was MEUR -2.2 (-0.5).

Product sales were MEUR 5.4 (4.9), growth 9% compared to the corresponding quarter in the previous year.

The geographical distribution of net sales was as follows: Europe 69 (67)%, Emerging Markets (North Africa, Middle East and Latin America) 18 (18)%, North America 12 (14)% and APAC (Asia-Pacific) 1 (1)%.

FINANCE AND INVESTMENTS

At the end of the fiscal period, Stonesoft's total assets were MEUR 25.9 (21.9). The equity ratio was 29 (39)% and gearing (the ratio of net debt to shareholders' equity) was -3.00 (-2.70).

The comparable cash flow during the fiscal period was MEUR 1.1 (1.4). The Group has no interest-bearing debt. The consolidated liquid assets at the end of the fiscal period totalled MEUR 8.3 (9.1).

Investments in tangible and intangible assets totalled MEUR 0.2 (0.4).

DEVELOPMENT OF BUSINESS OPERATIONS

Main business events in the fiscal period

In January Stonesoft published an updated version of the world's first advanced evasion testing tool Evader.

In February Stonesoft introduced two new appliance models Stonesoft 1035 and 1065, offering flexibility and increased throughput with an excellent price-performance-ratio.

In February Stonesoft FW-1301 obtained the "Recommend" status in the Network Firewall Group Test of the world's leading independent network security research and analyst organization NSS Labs.

In February the research company Garner, Inc. positioned Stonesoft as a visionary in its Magic Quadrant for Enterprise Network Firewalls.

In March Stonesoft's Intrusion Prevention System (IPS) obtained the highest level security certification CSPN (Certification de Sécurité de Premier Niveau) delivered by the French security agency ANSSI (French Network and Information Security Agency).

In March Stonesoft began cooperation with Red River, a national leader in providing IT products and services to federal agencies in the United States. Based on the partnership agreement the companies deliver advanced and cost-effective cyber security solutions to federal and commercial agencies in the United States.

Main business events after the fiscal period

In April, the Annual General Meeting of Shareholders re-elected Ilkka Hiidenheimo, Harri Koponen, Jukka Manner, Timo Syrjälä, Hannu Turunen and Satu Yrjänä as Board members.

In April Stonesoft announced it has received the fourth consecutive "Recommend" status from the product tests of the world's leading independent network security research and

analyst organization NSS Labs.

RESEARCH AND DEVELOPMENT

Stonesoft continued its strong investments in R&D. Investments during the fiscal period totalled MEUR 2.3 (1.8). This represented 22 (24)% of operating expenses.

R&D employed 105 (96) persons at the end of the fiscal period.

SHARE CAPITAL AND STOCK OPTION PROGRAMS

Stonesoft has one class of shares and all shares have equal rights. At the end of the fiscal period, the share capital recorded in the Trade Register was 1 150 574.64 Euros. The number of shares was 63 841 732. Stonesoft or its daughter companies do not own its shares. There were no changes in the share capital.

Stock Option Programs

The company had two valid stock option programs, Stock Option Program 2008, under which the subscription price is EUR 0.30 and the total number of stock options to be granted based on this program is 3 000 000 at the maximum and Stock Option Program 2012, under which the subscription price is EUR 1.42 for A-series and the total number of stock options to be granted based on this program is 4 500 000 at the maximum. The subscription period of the shares is graded and will end for all 2008 stock options on December 31, 2014 and for 2012 stock options in 2017-2019.

Additional information about both option programs is provided by the company's stock exchange releases and web pages.

During the fiscal period 40 000 company shares were registered on the basis of the stock option programs.

DEVELOPMENT OF SHARE PRICES AND TURNOVER

In the beginning of the fiscal period on January 1, 2013, the price of Stonesoft share was EUR 1.39 (0.86). At the end of the fiscal period on 31 March 2013 the price was EUR 2.20 (1.42). The highest price was EUR 2.77 (1.78) and the lowest EUR 1.41 (0.87). During the fiscal period the total turnover of Stonesoft shares amounted to MEUR 21.6 (14.7) and 9.4 (11.2) million shares, which is 14.7 (17.6)% of the total amount of the shares. Based on the share price at the end of the fiscal period on March 31, 2013, Stonesoft's market value was MEUR 140.5 (90.2).

The company gave no notices in change of ownership during the fiscal period.

ACQUISITIONS AND CHANGES IN GROUP STRUCTURE

No acquisitions were made during the fiscal period and there were no changes in the Group structure.

PERSONNEL

At the end of the fiscal period, the Group's personnel totalled 265 (232).

ANNUAL GENERAL MEETING AND AUTHORIZATIONS OF THE BOARD OF DIRECTORS

The Annual General Meeting (AGM) of Stonesoft Corporation held after the fiscal period on April 10, 2013 confirmed the financial statements of the fiscal year 1.1.2012-31.12.2012 and granted release from liability for the members of the Board of Directors and the Chief Executive Officer (CEO). AGM decided that no dividends are paid for the fiscal year 2012.

The AGM re-elected Ilkka Hiidenheimo, Harri Koponen, Jukka Manner, Timo Syrjälä, Hannu Turunen and Satu Yrjänä as Board members.

The Board of Directors did not use the authorization granted by the previous AGM that expired at the end of the AGM 2013. The AGM decided on 10.4.2013 to authorize the Board of Directors of the company to decide about one or more share issues as well as the issuance of option and other special rights so that the total number of new shares may be 12 600 000 at the maximum.

Based on the authorization the Board of Directors may decide on issuance of shares to the shareholders according to the shareholders' pre-emptive subscription rights as well as in a directed issuance of shares or stock options or other special rights in deviation from the shareholders' pre-emptive subscription rights in case the deviation is justified by a weighty financial reason for the company, such as financing of an acquisition, other arrangement concerning the business of the company or development of its capital structure, or incentive to the company's personnel.

The Board of Directors was authorized to decide on other terms and conditions related to the share issues and to the issuance of option or other special rights.

The authorization is in force until the end of the 2014 AGM.

The Board of Directors is not authorized to purchase the company's own shares.

SHORT-TERM RISKS AND BUSINESS UNCERTAINTIES

During the fiscal year 2013, Stonesoft's main risks and business uncertainties relate to the realization timetable of the sales projects and possible production disruption of our subcontractors and suppliers. Insecurities related to public economies may have a negative effect on the public sector projects. Stonesoft has no risks related to the order book, because it normally can process incoming orders within a couple of work days.

Risks and uncertainties as well as the principles of Stonesoft's risk management are discussed more extensively at the company website and in the Annual Report 2012.

FUTURE OUTLOOK

In 2012, the network security market grew by approximately 10%, and based on estimates by various sources the growth level of the total market will remain at 5-15% during the year 2013. For example, Gartner has estimated that the network security market, without any support or other services, will reach USD 9 Billion in 2013.

Stonesoft's comprehensive product offering meets the rapidly developing and changing security challenges, including the demands brought by cloud services, virtualization and outsourcing of security.

Advanced evasion techniques

Stonesoft's freely downloadable Evader testing tool provides organizations with the possibility to see in their own environment that advanced evasion techniques are able to bypass all except Stonesoft's security systems.

Due to incorrect technology choices, many competitors have great difficulties in amending their solutions to provide protection against AETs now and in the future.

Stonesoft has received the highest possible status in the product tests of the independent research company NSS Labs already for four consecutive times in the product categories most significant to Stonesoft and its customers. In addition, the research company Gartner has positioned Stonesoft as a visionary in both its IPS and Firewall Magic Quadrants. In the IPS Magic Quadrant Stonesoft is the only company who has received the visionary status.

Cyber security

The discussion about cyber security continues actively around the world and Stonesoft has established its thought leadership position.

Estimate

Based on Stonesoft's view, these issues will continue to have a positive impact on the company's net sales and profitability and will strengthen its competitiveness and market position.

The company's net sales target for 2013 is MEUR 60 and the net sales target set in the strategy for the year 2014 is approximately MEUR 90. To support this, the company will enter several new markets during 2013 and actively develop partner business.

The company expects the operating profit for the full year to improve compared to the previous year.

With regard to the development of the turnover and the operating result, variation is expected between the quarters in comparison to the corresponding quarter during the previous year as well as to the previous quarter as a consequence of, among others, long sales cycles and the relatively big impact of individual deals on the development of net sales and operating result.

SUMMARY OF FINANCIAL STATEMENTS AND NOTES JANUARY 1 - MARCH 31, 2013

Basis of preparation

The Interim Report has been prepared in accordance with the IAS 34 Interim Reports standard.

The company has adopted certain new or revised IFRS standards and IFRIC interpretations at the beginning of the financial period as described in the Financial Statements for 2012. However, the adoption of these new and amended standards has not yet had an effect on the reported figures in practice. In other respects, the same accounting policies have been followed as in the Financial Statements for 2012. Key indicator calculations remain unchanged.

The figures presented in this release are unaudited.

Stonesoft Group Income Statement (1000 Euros)	1-3/2013	1-3/2012	1-12/2012
Net sales	9 244	8 254	40 127
Other operating income	443	269	950
Materials and services	-1 732	-1 458	-7 658
Personnel expenses	-6 004	-4 787	-19 885
Depreciation	-172	-142	-624
Other operating expenses	-3 946	-2 710	-12 459
Operating result	-2 168	-574	451
Financial income and expenses	23	97	257
Result before taxes	-2 146	-477	709
Taxes	-70	-60	-23
Result for the accounting period	-2 215	-537	685
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translating foreign operations	-3	5	5
Total other comprehensive income	-3	5	5
Total comprehensive income	-2 218	-532	691
Basic earnings per share (EUR), continuing operations	-0,03	-0,01	0,01
Diluted earnings per share (EUR), continuing operations	-0,03	-0,01	0,01

Balance Sheet (1000 Euros)	31.3.2013	31.3.2012	31.12.2012
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ASSETS

Non-Current Assets

Tangible assets	1 010	985	1 008
Intangible assets	296	159	233
Other investments	10	10	10
Total	1 316	1 154	1 251

Current assets

Inventories	2 264	1 746	2 282
Trade and other receivables	13 780	9 669	16 187
Prepayments	196	163	102
Marketable securities	0	5 503	4 343
Cash and cash equivalents	8 295	3 625	2 848
Total	24 536	20 706	25 761
Total assets	25 852	21 860	27 012

EQUITY AND LIABILITIES

Equity attributable to equity holders of the parent company

Share capital	1 151	1 151	1 151
Issue of shares	11	18	12
Share premium account	76 602	76 602	76 602
Conversion differences	-952	-949	-949
Reserve for invested unrestricted equity fund	4 762	4 732	4 751
Retained earnings	-78 806	-78 169	-76 696
Total	2 768	3 385	4 871

Long-term liabilities

Prepayments *)	5 267	3 724	5 025
Total	5 267	3 724	5 025

Short-term liabilities

Trade and other payables	6 716	5 063	7 466
Prepayments *)	11 004	9 484	9 526
Tax liability	50	139	68
Provisions	48	64	56
Total	17 817	14 751	17 116

Total liabilities	23 084	18 475	22 141
Total equity and liabilities	25 852	21 860	27 012

*) Prepayments contain customers advance payment of support and maintenance contracts

16 271	13 209	14 551
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Stonesoft Group

Statement of changes in equity (1000 Euros)

	Share capital	Issue of shares	Share premium	Conversion differences	Reserve for invested unrestricted equity fund	Retained earnings	Total
Shareholders' equity at 1.1.2012	1 151	0	76 602	-954	4 732	-77 659	3 873
Comprehensive income	0	0	0	5	0	-537	-532
Transaction costs from equity	0	0	0	0	0	0	0
Stock options exercised	0	18	0	0	0	0	18
Stock option expenses	0	0	0	0	0	27	27
Shareholders' equity at 31.3.2012	1 151	18	76 602	-949	4 732	-78 169	3 385

	Share capital	Issue of shares	Share premium	Conversion differences	Reserve for invested unrestricted equity fund	Retained earnings	Total
Shareholders' equity at 1.1.2013	1 151	12	76 602	-949	4 751	-76 696	4 871
Comprehensive income	0	0	0	-3	0	-2 215	-2
Transaction costs from equity	0	0	0	0	-1	0	-1
Stock options exercised	0	-2	0	0	12	0	11
Stock option expenses	0	0	0	0	0	105	105
Shareholders' equity at 31.3.2013	1 151	11	76 602	-952	4 762	-78 806	2 768

Stonesoft Group			
Cash flow statement (1000 Euros)	1.1.-31.3.2013	1.1.-31.3.2012	1.1.-31.12.2012
Cash flow from operating activities			
Operating Result	-2 168	-574	451
Adjustments			
Non-cash transactions	-50	-431	172
Financial expenses	-21	-25	-77
Financial incomes	43	19	245
Change in net working capital	3 552	2 771	-264
Taxes paid	-24	-40	-234
Total cash flow from operating activities	1 332	1 720	294
Cash flow from investing activities			
Investments in tangible assets	-153	-411	-868
Investments in intangible assets	-85	-13	-135
Total cash flow investing activities	-237	-424	-1 003
Cash flow from financing activities			
Stock options exercised	9	18	101
Total cash flow from financing activities	9	18	101
Change in cash and cash equivalents			
Cash and cash equivalents at beginning of period	7 191	7 710	7 710
Conversion differences	0	0	0
Changes in the market value of investments	0	103	89
Total cash and cash equivalents at end of period *)	8 295	9 128	7 191
*) Total cash and cash equivalents at end of the period contains pledged securities			
	721	492	711

Stonesoft Group			
Geographical segments	1.1.-31.3.2013	1.1.-31.3.2012	1.1.-31.12.2012
(1000 Euros)			

Net sales			
Europe	6 334	5 514	28 588
Emerging Markets	1 678	1 495	6 073
Americas	1 099	1 154	4 517
APAC	133	92	949
Total net sales	9 244	8 254	40 127
Operating profit			
Europe	-868	99	1 612
Emerging Markets	-149	-183	573
Americas	-1 139	-377	-1 544
APAC	-12	-114	-190
Total operating profit	-2 168	-574	451

Stonesoft Group			
Contingent liabilities	1.1.-31.3.2013	1.1.-31.3.2012	1.1.-31.12.2012
(1000 Euros)			

Contingent off-balance sheet			
Non-cancellable other leases	1 852	1 807	1 428
Contingent liabilities for the Company	368	223	339

Stonesoft Group						
Quarterly development	Q1 /	Q4 /	Q3 /	Q2 /	Q1 /	
(Euro Millions)	2013	2012	2012	2012	2012	2012
Software	0,6	1,0	0,5	0,5	0,6	2,6
Security appliances	4,8	8,7	5,1	4,9	4,3	23,0
Services	3,8	3,9	3,7	3,6	3,4	14,5
Other products	0,0	0,0	0,0	0,1	0,0	0,0
Net sales continuing operations	9,2	13,5	9,3	9,1	8,3	40,1
Change-% from previous year	12	41	16	40	27	31
Sales margin	7,5	10,6	7,6	7,4	6,8	32,5
Sales margin %	81	79	82	81	82	81
Operative expenses	10,1	9,4	7,8	8,0	7,6	32,9

Operating profit (EBITA)	-2,2	1,4	0,1	-0,4	-0,6	0,5
% of net sales	-23	10	1	-5	-7	1
Result before taxes	-2,1	1,5	0,0	-0,4	-0,5	0,7
% of net sales	-23	11	0	-6	-6	2

Stonesoft Group

Key ratios (1000 Euros)	1.1.-31.3.2013	1.1.-31.3.2012	1.1.-31.12.2012
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Net sales	9 244	8 254	40 127
Net sales change-%	12	27	31
Operating result	-2 168	-574	451
% of net sales	-23	-7	1
Operating result before taxes	-2 146	-477	709
% of net sales	-23	-6	2
ROE - %, annualized	-232	-59	16
ROI - %, annualized	-220	-49	18
Equity ratio-%	29	39	39
Net gearing	-3,00	-2,70	-1,48
Total Assets	25 852	21 860	27 012
Capital expenditure	237	424	1 003
Capital disposals	0	0	0
R&D costs	2 251	1 832	7 476
% of net sales	24	22	19
Number of employees (weighted average)	261	229	237
Number of employees (end of the period)	265	232	251

Share Specific Ratios

Earnings per share	-0,03	-0,01	0,01
Equity per share	0,04	0,05	0,07
Dividend	0,00	0,00	0,00
Dividend per share (EUR)	0,00	0,00	0,00
Dividend / Profit-%	0	0	0

Calculation of indicators

Return on equity (ROE) % =	(Profit before taxes - income taxes) x 100 / Shareholders' equity + minority interest (average)
Return on invested capital (ROI)% =	(Profit before extraordinary items+interest and other financial expenses) x100 / Balance sheet total - non-interest bearing debt (average)
Equity ratio % =	(Equity + minority interest) x 100 / Balance sheet total - advances received
Net gearing =	Interest bearing net debt - cash in hand and on deposit - marketable securities / Equity + minority interest
Earning per share (EPS) =	Profit before taxes - minority interest - income taxes / Average number of shares adjusted for dilutive effect of options
Equity per share =	Equity / Number of shares at end of period

FORWARD-LOOKING STATEMENTS

This report contains statements concerning, among other things, Stonesoft's financial condition and the results of operations that are forward-looking in nature. Such statements are not historical facts, but rather represent Stonesoft's future expectations. The company believes that the expectations reflected in these forward-looking statements are based on reasonable assumptions. However, these forward-looking statements involve inherent risks and uncertainties, which could cause actual results or outcomes to differ materially from those anticipated in the statements. These risks and uncertainties may include, among other things, (1) changes in our market position or in the Firewall/VPN and Intrusion detection and protection market in general; (2) the effects of competition; (3) the success, financial condition, and performance of our collaboration partners, suppliers and customers; (4) our ability to source quality components without interruption and at acceptable prices; (5) our ability to recruit,

retain and develop appropriately skilled employees; (6) exchange rate fluctuations, including, in particular, fluctuations between the Euro, which is our reporting currency, and the US dollar; (7) other factors related to sale of products, economic situation, business, competition or legislation affecting the business of Stonesoft or the industry in general and (8) our ability to control the variety of factors affecting our ability to reach our targets and give accurate forecasts.

PRESS CONFERENCE

A press conference for analysts and investors will be held on 26 April, 2013 at 10.30 am at the Stonesoft headquarters, street address Itälahdenkatu 22 A, 00210 Helsinki.

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This stock exchange release and the presentation material related to this report are also available at the Stonesoft web site www.stonesoft.com.

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